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## Iberian Peninsula (Spain and Portugal)

### Cotton and Products

### Annual

### 2006

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**Report Highlights:**

The Government of Spain (GOS) successfully challenged the European Commission's (EC) cotton reform, but until the EC has a "revised" reform in place, Spanish cotton producers have had to make operating decisions based on the original "reform." Their resulting production decisions will help to mitigate the otherwise declining import demand and substantially reduce exportable supplies. (LR20SH3)

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

While we forecast that Spanish Marketing Year (MY) 2006/07 (August/July) raw cotton imports will be up slightly (10,000 metric tons (MT) vs. 8,000 MT in MY 2005/06), we expect a drop of about 20,000 MT in the year-to-year cotton exports (44,000 MT for MY 2006/07 vs. 64,000 during MY 2005/06). Of the import total, we expect just over 1,000 MT will be of U.S. origin, consisting primarily of upland cotton, San Joaquin Valley, and some PIMA. While only a slight upward import tic from last year's imports, had it not been for the EC's cotton reform, imports would have likely decreased yet again, and exports would likely have remained considerably higher than our current forecast.

We forecast Portuguese MY 2006/07 raw cotton imports at 60,000 MT, down from 65,000 MT in MY 2005/06. Of the total, we expect about 300 MT of U.S.-origin PIMA cotton. This forecast represents a continuing decline in the Portuguese textile industry, in the face of competition from lower-cost producers.

The EC's cotton reform, in spite of having been successfully challenged by the Spanish Government before the European Attorney General, prescribes partial subsidy decoupling and an upside hectare-limit. Cotton producers in Spain will receive about 65 percent of their historic subsidies in the form a Single Farm Payment, and only be permitted to grow 70,000 hectares in the current year (90,000 ha previous 10 year average planted area).

## Production Supply and Distribution Table (PSD): Portugal

## PSD Table

Country Commodity	Portugal		Cotton		(HECTARES) (MT)	
	2004 USDA Official [Old]	Revised Post Estimate [New]	2005 USDA Official [Old]	Estimate Post Estimate [New]	2006 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin	08/2004		08/2005		08/2006	
Area Planted	265	273	200	193	0	150
Area Harvested	265	273	200	193	0	150
Beginning Stocks	18,844	18,844	17,497	18,785	0	17,213
Production	353	309	229	198	0	170
Imports	60,000	71,507	55,000	65,000	0	60,000
MY Imp. from U.S.	900	1,359	900	300	0	300
TOTAL SUPPLY	79,197	90,660	72,726	83,983	0	77,382
Exports	450	475	450	470	0	450
USE Dom. Consumption	60,000	70,000	55,000	65,000	0	60,000
Loss Dom. Consumption	1,250	1,400	1,150	1,300	0	1,200
TOTAL Dom. Consumption	61,250	71,400	56,150	66,300	0	61,200
Ending Stocks	17,497	18,785	16,126	17,213	0	15,733
TOTAL DISTRIBUTION	79,197	90,660	72,726	83,983	0	77,382

## Production, Supply and Distribution Table (PSD): Spain

## PSD Table

Country Commodity	Spain		Cotton		(HECTARES)(MT)	
	2004 (Revised)		2005 (Estimate)		2006 (Forecast)	
	USDA	Post	USDA	Post	USDA	Post
	Official	Estimate	Official	Estimate	Official	Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin	08/2004		08/2005		08/2006	
Area Planted	0	89,400	0	86,000	0	70,000
Area Harvested	90,000	89,400	90,000	86,000	0	70,000
Beginning Stocks	24,821	24,821	37,884	37,744	0	36,644
Production	108,863	110,000	108,864	111,000	0	85,000
Imports	16,329	16,257	10,886	8,000	0	10,000
MY Imp. from U.S.	0	34	0	1,100	0	1,200
TOTAL SUPPLY	150,013	151,078	157,634	156,744	0	131,644
Exports	51,166	51,114	65,318	64,000	0	44,000
USE Dom. Consumption	60,963	61,000	56,609	55,000	0	50,000
Loss Dom. Consumption	0	1,220	0	1,100	0	1,000
TOTAL Dom. Consumption	60,963	62,220	56,609	56,100	0	51,000
Ending Stocks	37,884	37,744	35,707	36,644	0	36,644
TOTAL DISTRIBUTION	150,013	151,078	157,634	156,744	0	131,644

## Production

- Spain**

Spain: Production of Un-ginned Cotton in Metric Tons

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Spain	294,600	318,200	304,500	295,100	348,800	346,100	260,000

Source: Official data up till 2005/06; FAS/Iberia estimate for 2006/07.

- Spanish total cotton planted area will be down in 2006/07 relative to previous year levels, under the effects of the new EU Cotton policy, in effect as of January of 2006.
- Under the Reform, subsidized cotton production in Spain is subject to a maximum-guaranteed area of 70,000 ha (see more details under Production Policy, below).
- According to producer sources, up till recently, cotton farmers from Andalucia, the chief Spanish cotton producing Autonomy, had applied to planting permits totaling 67,000 ha. Same sources consider domestic cotton area in MY 2006/07 to remain within the 70,000 ha MGA.
- Some ninety-five percent of Iberian Peninsula cotton production is cultivated in the Guadalquivir river basin of Andalucia, in the Spanish provinces of Seville, Cordoba, Cadiz and Jaen. Smaller areas are located in Cartagena in eastern Spain.

- Portugal**

Portugal: Production of Un-ginned Cotton in Metric Tons

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Portugal	0	612	843	632	950	611	520

Source: Official data up till 2004/05; FAS/Iberia estimate for 2006/07.

- Portuguese MY 2006/07 raw cotton production should decline, under the effects of the new EU Cotton Policy (see Production Policy below).
- According to our sources, this decline should be limited. Farmers who have been cultivating cotton in Portugal are highly professional, many Spanish.
- Raw cotton is cultivated primarily in the Lower Alentejo region.

## Production Policy

- The Revised EU cotton Policy, instituted under EU Reg. 864/2004, dated of April 29, 2004, came to effect on January 1, 2006.
- As of MY 2006/07, cotton producers are eligible to direct EU subsidy payments determined on the basis of historic cultivated areas and yields and EU supports to the sector.

- Under new regime, 65 percent of subsidy payments will be de-coupled and included in the Single Farm Payment (SFP). The remaining support will be integrated in the country's "financial envelope," and paid to the farmers on a cultivated area-basis. The CAP reform converted the maximum guaranteed quantity regime in place until the end of 2005, into an area-based system. For base (guaranteed) areas and subsidies in place under new cotton regime, please check table below.
- Cotton farmers complying with specific environmental-friendly practices are also eligible to the EU agro-environmental measure (AEM) subsidy regime.
- In Spain, there is a regressive subsidy scheme in place for AEM payment, which is regulated differently by the Regional Autonomies (RA). In Andalucia, the chief cotton region, AEM is of € 350/ha for areas below a 40 ha total, € 210/ha for areas between 41 and 80 ha, and of € 105/ha for any areas over 80 ha.
- Farmers are also eligible to a quality premium. Cotton farmers who deliver to the industry cotton with moisture levels below a 12% ceiling, and impurity levels beneath a 5% one, are also eligible to an additional maximum € 190/ha subsidy. Each RA has the authority to set its own modulation scheme for this subsidy.

**Key Parameters of Old and New Cotton Regime in Spain and Portugal**

	2005	From 2006 Onwards		
	MGQ (Tons)	Base Area	Amount de- coupled	Aid per eligible hectare
Spain	249,000	70,000 ha	1,509 €/ha	1,039 €/ha
Portugal	1,500	360 ha	1,202 €/ha	556 €/ha
EU	1,031,000	425,360 ha	-	-

Note: MGQ stands for Maximum Guaranteed Quantity. Base Area is maximum guaranteed area.

- The Government of Spain (GOS) was a strong opponent to the EU cotton reform, and filed a case with the EU General Attorney to pursue its annulment.
- Recently, the EU General Attorney issued a recommendation to the EU Court of Justice, advising that it issued a sentence having the EU annul the Reform.

## Consumption

- Iberian MY 2005/06 raw cotton consumption suffered a significant reduction from previous year levels, due to the continuing closing of spinners in both Portugal and Spain. According to local industry contacts, these closures are affecting primarily carded yarn manufacturers.
- We anticipate another reduction in Iberian raw cotton consumption for MY 2006/07. Many local textile units are still affected by financial problems, and more will shut down in the coming year.

- According to our sources, the industry should start soon to trend towards a new stability, and mills closures should start to slow down soon.
- High imports of cheap yarn from India, Pakistan or Turkey continue to displace locally produced yarn.
- The sector is further affected by the importation of all kinds of textile products from third-countries, which have been profiting from full trade liberalization under the Multi-Fiber Agreement as of January 1, 2005. This is particularly affecting Portuguese garments, which are being largely displaced by Chinese products, and clothing and home furnishings in the case of the Spanish industry.
- Competitiveness of Spanish and Portuguese textiles in third countries remains hurt by the strength of the Euro against the dollar, as well as by high production costs.
- Home-textiles and furnishings remain the most competitive Portuguese textile industry segments, which profit from tradition and good marketing practices. The garment industry remains Spanish garment industry, benefiting from some recognition attained by Spanish fashion in international markets.
- Cotton demand continues to be dominated by SM cotton (1.3/32 and 1.1/16) for ring spinning, which accounts for some 70 percent of total cotton use. The remaining 30 percent consists in SLM cotton (1.1/16 and 1.1/8) for open-end use. Demand for ELS cotton represents a market niche. In Portugal, the industry estimates this niche to represent some 1,500 to 2,000 tons annually. SM cotton is primarily sourced from Equatorial Africa, and SLM cotton from Central Africa and the Former Soviet Union. ELS cotton is primarily sourced from the U.S., Egypt and Israel.

## Trade

### • Portugal

Portugal: Un-ginned Cotton Trade in Metric Tons

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Imports	135,614	121,283	105,297	84,739	71,507	65,000	60,000
Exports	80	531	360	415	475	470	450

Source: Official statistics up till MY 2004/05, and FAS/Iberia estimates for remaining years.

### • Spain

Spain: Un-ginned Cotton Imports in Metric Tons

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Imports	31,501	29,313	25,785	16,907	16,257	8,000	10,000
Exports	29,339	31,664	17,392	56,330	51,114	64,000	44,000

Source: Official statistics up till MY 2004/05, and FAS/Iberia estimates for remaining years.

- Iberian raw cotton imports will be reduced in MY 2005/06 from previous years due to slowdown in cotton spinning activity. According to the official statistics, during the first half in MY 2005/06, Portuguese raw cotton imports declined 9% relative to the same period in MY 2004/05, and Spanish ones 50%.
- During MY 2006/07, Portuguese raw cotton imports should decline again, due to a slowdown in spinning levels.
- Spanish MY 2006/07 raw cotton imports will rebound mildly, due to the effects of the lower anticipated MY 2006 crop.
- U.S. cotton shipments into Portugal will be significantly reduced during MY 2005/06 relative to previous year levels, due to the competitiveness of Egyptian ELS cotton relative to U.S. PIMA. Portuguese cotton imports from the U.S. currently consist basically in PIMA cotton. Local trade sources report that all other U.S. cotton types tend to be uncompetitive relative to other origins, namely in Africa.

### Factors Affecting U.S. Cotton

- U.S. cotton competitiveness in the Iberian Peninsula market is primarily affected by high export and shipping costs.
- Industry sources claim there are also technical issues of some importance. These include a relatively high incidence of neps, high micronaire, and low grades with coloring problems.
- The local trade also reports that trade practices adopted by U.S. cotton exporters are not flexible enough compared to those of other countries.
- PIMA has emerged in recent years as the most competitive U.S. cotton type. The threads and materials production from ELS cotton have a comparatively high margin vis-à-vis other cotton types. However, U.S. PIMA cotton competes with Egyptian and Israeli ELS cotton.



## Trade Matrices

# Import Trade Matrix

**Country**  
**Commodity**

Portugal  
Cotton

Time Period	Aug/July	Units:	Metric Tons
Imports for:	2004		2005
U.S.	1,359	U.S.	300
Others		Others	
Spain	7,460	Spain	5,500
Other EU	3,197	Other EU	1,100
Brazil	10,718	Chad	13,000
Chad	8,179	Brazil	9,300
Mozambique	6,536	Mozambique	5,700
Uganda	5,440	Zimbabwe	4,400
Zimbabwe	4,937	Uganda	3,300
Paraguay	2,673	Argentina	2,700
Turkey	2,412	Cameroon	2,500
Cameroon	2,301	Tanzania	2,500
Total for Others	53,853		50,000
Others not Listed	16,295		14,700
Grand Total	71,507		65,000

# Export Trade Matrix

**Country**  
**Commodity**

Portugal  
Cotton

Time Period	Aug/July	Units:	Metric Tons
Exports for:	2004		2005
U.S.	0	U.S.	0
Others		Others	
Spain	284	Spain	250
Other EU	91	Other EU	80
Bangladesh	90	Pakistan	140
Total for Others	465		470
Others not Listed	10		0
Grand Total	475		470

## Import Trade Matrix

**Country**

Spain

**Commodity**

Cotton

Time Period

Aug/July

Units:

Metric Tons

Imports for:

2004

2005

U.S.

U.S.

Others

Others

Belgium	4,660	Belgium	2,900
Other EU	683	Other EU	200
Brazil	2,598	Benin	1,650
Australia	1,979	Syria	400
Zimbabwe	1,469	Cote d'Ivoire	370
Cameroon	1,444	Pakistan	350
Syria	905	Mali	280
Chad	737		
Benin	602		

Total for Others

15,077

6,150

Others not Listed

1,146

750

Grand Total

16,257

8,000

## Export Trade Matrix

**Country**

Spain

**Commodity**

Cotton

Time Period

Aug/July

Units:

Metric Tons

Exports for:

2004

2005

U.S.

U.S.

Others

Others

France	11,597	U.K.	9,900
Portugal	5,550	France	8,000
Belgium	4,700	Belgium	4,150
U.K.	4,489	Portugal	5,500
Other EU	3,450	Other EU	1,000
China	10,033	China	26,300
Morocco	4,578	Morocco	3,950
Algeria	3,880	Algeria	3,400
Thailand	756		
India	718		

Total for Others

49,751

62,200

Others not Listed

1,363

1,800

Grand Total

51,114

64,000

Note: MY 2004 data in trade matrices above is from the Global Trade Atlas (GTA). We estimated import/export data for MY 2005. Please note there is a discrepancy in MY 2004 Portuguese cotton imports from Spain, and MY 2004 Spanish cotton exports into Portugal.

## Marketing

- Iberia Peninsula cotton importers generally source cotton from a number of countries (please see imports and exports section above). Grades, staple lengths, prices and other specifications are the determining import factors. None of the major cotton exporting countries carries out significant promotional activities in Portugal or Spain.
- In Portugal, PIMA cotton from the United States, Egypt and Israel is in fairly constant demand, while other types are of little interest to importers. MEMPHIS cotton continues to be considered uncompetitive by the local trade when compared to African-sourced cotton. San Joaquin Valley cotton competes with cotton shipped from a series of cheaper-price origins, including Australia. Orleans-Texas cotton is generally considered uncompetitive relative to other origins of similar-type cottons.
- In Spain, U.S. cotton competes for a diminishing market with Franc-Zone African (FZA), Australia, the New Independent States, Syria, and Argentina. Spanish imports of U.S. cotton include upland cotton, SJV and some Pima. The main competition for SJV cotton is domestic cotton (which is less sticky) as well as Australian cottons. Local industry contacts report Spanish cotton has low-contaminant levels and good ginning properties. African FZA cottons are favored by price/quality ratios and cheap freights.
- Portuguese cotton spinners and importers are mostly affiliated with the Oporto-based Portuguese textiles association (ATP). Some 80 percent of total cotton imports are made directly by the larger millers, with only some 20 percent being handled by independent dealers. Third-country exporters rely basically on price advantages and face-to-face contacts (Chad, Mali and Zimbabwe have in-country representatives).
- Spanish cotton importers generally are associated with the Spanish National Cotton Exchange, which is based in Barcelona at the following address: CENTRO ALGODONERO NACIONAL; Via Layetana, 32-34 - 3; 08003 Barcelona; Phone: (34-93) 319- 8950; Fax: (34-93)319-8962; Web site: [www.centroalgodonero.com](http://www.centroalgodonero.com)
- For further information on the Iberian market, please contact the following:

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